



REPORT BY THE  
DEPARTMENT OF FISH & GAME  
AUDITS BRANCH

WA 07-12

AUDIT OF  
BAY DELTA REGION  
(LICENSE SALES FUNCTION)

MAY 2008

## Memorandum

To: Chuck Armor, Regional Manager  
Bay Delta Region

Date: May 20, 2008

From: Brian A. Kwake, Chief  
Department of Fish and Game

Audit Control Number  
**WA 07-12**

Subject: Final Audit Report - Bay Delta Region's License Sales Function

Attached is the final audit report for the Bay Delta Region's (BDR) license sales function for the period July 1, 2006 through January 31, 2008. The audit was conducted under the authority of the Audit Branch's (AB) charter that established the AB as the unit responsible for conducting audits of the operating systems and programs of the Department of Fish and Game (DFG). The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* as required by the California Government Code, Section 1236.

BDR's response to the report generally agrees with our audit findings and recommendations. The Audits Branch (AB) incorporated the Department's response as Attachment A to this report.

We would like to thank the BDR staff for their time and cooperation. Should you have any questions, please contact Scott Marengo at (916) 445-3367.

### Attachment

cc: J. McCamman  
T. Jordan  
H. Carriker  
C. Catalano  
J. Gloria

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# SUMMARY

The Department of Fish and Game's (DFG) Audits Branch (AB) performed an audit of the Bay Delta Region's (BDR) license sales function. The audit was conducted to determine whether controls over the license sales function were adequate to ensure sales transactions were properly recorded, reported, and sales revenue was deposited, and whether the internal controls were adequate to ensure accountability for its consigned inventories of licenses, permits, tags, and stamps. The audit found the internal control structure over the license sales and inventory functions to be adequate, except BDR did not perform the semi-annual reconciliation of license inventory and untimely reporting of expired license inventory.

# FOLLOW-UP ON PRIOR AUDIT FINDINGS

The Bay Delta Region was previously known as the Central Coast Region (CCR). On September 6, 2006, the AB issued audit report number WA 05-24 on the formerly named CCR's license sales function. We followed up on the finding in this report to determine if the prior finding had been fully resolved. This finding related to inadequate controls over the safe combination. The CCR did not change the safe combination even after two employees with access to the combination retired from State service. Based on our follow-up, we determined that the BDR did change the safe combination subsequent to this audit. There was another BDR employee with access to the safe combination who recently retired in December 2007. We recommended that BDR again change the combination to the safe.

# BACKGROUND

The DFG has 10 regional and field offices that offer license sales to the public. The License and Revenue Branch (LRB) sales manual provides the DFG offices instruction on license issuance, deposit, accounting, cashiering, and reporting requirements. The License Agent System (LAS) provides a method of accounting for the sale of various licenses, permits, stamps, and other items distributed by the LRB. Part of this LAS function is the actual distribution of the various items of inventory maintained by the LRB.

Under the authority of the AB charter, the AB has initiated audits of the DFG's license sales at the 10 regional and field offices in order to provide management reasonable, but not absolute, assurance that the DFG offices are in compliance with laws relating to the sale of commercial and sport licenses. As part of this process, the BDR was selected for audit.

# SCOPE, METHODOLOGY, AND OBJECTIVES

The DFG's AB audited the BDR license sales function for the period July 1, 2006 through January 31, 2008. Our audit was conducted in accordance with *Governmental Auditing Standards* issued by the Comptroller General of the United States and the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, Inc.

Our study and evaluation included a review of applicable laws and regulations, as well as regional sales and inventory records. Audit tests and other audit procedures considered necessary to meet audit objectives were included. These tests consisted of documenting the cash and inventory internal controls, identifying control strengths and weaknesses, performing compliance testing of the license sales functions, verifying inventories, documenting and evaluating adequate separation of duties.

The objectives of the audit were to provide the DFG's management with reasonable, but not absolute, assurance that:

- Controls over the license sales functions were adequate to ensure that sales transactions were properly authorized, supported, recorded, and deposited.
- Controls were adequate to ensure accountability of inventories assigned to the office and inventories consigned to the individual sales clerks.



# CONCLUSION

In our opinion, the BDR has properly recorded, deposited, reported license revenue, and accounted for inventory valued at \$2,977,038 for the period July 1, 2006 through January 31, 2008. The internal control structure over cash receipts and inventory at the BDR in effect at January 31, 2008, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the license sales inventory, except for the weaknesses described in the Findings and Recommendations Section of this audit report.

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Brian A. Kwake, Chief  
Audits Branch

January 31, 2008

Audit Staff: Scott Marengo, Auditor

**FINDINGS**

**AND**

**RECOMMENDATIONS**

**FINDING 1      SEMI-ANNUAL RECONCILIATION OF LICENSE INVENTORY**

The BDR does not perform the semi-annual reconciliation of license inventory. Consequently, our audit disclosed \$5,253 worth of missing inventory during our review.

LRB office memorandum number 01-02, dated February 19, 2002, states “the LRB will provide DFG license sales offices with a statement of all consigned inventory semi-annually. The statement is to be compared against a physical count of all inventory consigned to the office, and is to be done by an independent third party who does not order, receive, consign, maintain or sell inventory.”

The BDR did not perform the semi-annual reconciliation. Without reconciliations, there is no assurance that consigned inventory is accounted for and is current.

**RECOMMENDATION**

The BDR should conduct the semi-annual physical inventory of its assigned inventory. This reconciliation should be performed by someone other than the inventory custodian, counter sales personnel, or the person receiving the inventory shipments. If the semi-annual inventory statement is not received for the April and October periods, the BDR should contact the LRB and request a copy of the statement for the purpose of completing its semi-annual reconciliation.

BDR Response:      The missing inventory was returned and not checked in by License and Revenue Branch (LRB). LRB found the inventory at our request (attached) and the account is clear. Physical inventory will be done on a semi-annual basis in the future.

AB Comments:      The AB concurs with this response.

**FINDING 2      UNTIMELY REPORTING OF EXPIRED LICENSE INVENTORY**

We noted that an Expired Notice Report, dated May 1, 2007, was not returned to LRB until January 31, 2008.

LRB office memorandum number 01-02, dated February 19, 2002, states

“expired books and reports are to be submitted to LRB within 60 days of expiration. Offices may report more frequently, but not less.”

The BDR staff has not always complied with this requirement which could result in the loss or theft of the State’s assets.

#### RECOMMENDATION

The BDR should return all expired license inventory within 60 days of expiration.

BDR Response: This occurred during a time where we had a vacancy and a major push on grant agreements. Our inventory person was covering both jobs at the time. We do not anticipate this to happen in the future.

AB Comments: The AB concurs with this response.

# **ATTACHMENT A**

**From:** Cindy Catalano  
**To:** Kwake, Brian; Marengo, Scott  
**CC:** Armor, Chuck; Gloria, Javier  
**Date:** 5/7/2008 11:44  
**Subject:** Audit response - license counter  
**Attachments:** Hello Cindy,

Scott, Brian:

In response to the audit findings for the Yountville license sales function dated April 2008:

Finding 1 - Semi-Annual Reconciliation of License Inventory

In response - The missing inventory was returned and not checked in by License and Revenue Branch (LRB). LRB found the inventory at our request (attached), and the account is clear. Physical inventory will be done on a semi-annual basis in the future.

Finding 2 - Untimely Reporting of Expired License Inventory

In response - this occurred during a time where we had a vacancy and a major push on grant agreements. Our inventory person was covering both jobs at the time. We do not anticipate this to happen in the future.

Hope that does it. Any questions, please let me know.

**From:** Donna Pepper-Falero  
**To:** Catalano, Cindy  
**CC:** Gloria, Javier  
**Date:** 4/22/2008 08:36  
**Subject:** Hello Cindy,  
**Attachments:** Donna Pepper-Falero1.vcf

Hello Cindy,  
We did find book Nontransferable Market Squid Vessel Permit #20060562-160071, it was overlooked. I will have it barred.  
Thanks for letting us know.

Donna Pepper-Falero  
License and Revenue Branch  
Compliance Unit  
1740 North Market Blvd.  
Sacramento, CA 95834  
(916) 928-5981